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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on Universal Service	)	**CC Docket No. 96-45**
	)	

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COMMENTS

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COMMENTS OF
ALLTEL TELEPHONE SERVICES CORPORATION

ALLTEL Telephone Services Corporation, on behalf of its affiliated local exchange companies (hereinafter "ALLTEL" or the ALLTEL Companies"), respectfully submits its comments on the Recommended Decision of the Federal-State Joint Board ("Joint Board") released November 8, 1996 in the above-captioned matter.

The Joint Board was convened by the FCC pursuant to the requirements of the recently enacted Telecommunications Act of 1996 ("96 Telecom Act") and requested to prepare a decision by November 8, 1996. The decision was to recommend changes to any FCC regulations in order to implement Section 214(e) and Section 254 of the 96 Telecom Act, including the definition of the services that are supported by Federal universal support mechanisms and a specific timetable for completion of such recommendations. The Joint Board and the FCC are required by the 96 Telecom Act to base policies for the preservation and advancement of universal service on six specific principles with the ability to include additional principles determined necessary and appropriate for the protection of the public interest, convenience, and necessity and consistent with the Communications Act.

ALLTEL's Interest

The ALLTEL Companies are "rural telephone" companies within the meaning of Section 153 (37) of the Communications Act. They are wholly owned subsidiaries of ALLTEL Corporation. The ALLTEL Companies are located in fourteen states and collectively have approximately 1.6 million access lines. The areas they serve are predominantly rural and/or high cost areas. The current Universal Service Fund ("USF") and the Dial Equipment Minute ("DEM") weighting mechanisms have enabled the ALLTEL company participants to provide service at reasonable rates to many rural and/or high cost areas.

The implementation of the 96 Telecom Act as it relates to determining the services covered by the universal support mechanisms, eligibility for payment, the determination and calculation of the level of support, and certain transition issues will all impact the ALLTEL Companies.

Two of the basic goals of the 96 Telecom Act are facilities-based competition in the local exchange and the preservation and advancement of universal service. These goals are not easily reconciled as evidenced by the Joint Board's Recommended Decision.

In the past, the provision of universal service has not been a model of textbook economic efficiency or rational pricing. To accomplish certain societal goals, services have been priced at less or more than their costs in order that the overall rates charged for telephone service in franchised areas were reasonable. To achieve this, both explicit and implicit subsidies have been utilized. However, Section 254(b) (5) and (e) of the 96 Telecom Act require that support mechanisms should be specific, explicit, predictable, and sufficient. In its Recommended Decision, the Joint Board has proposed an explicit funding mechanism for a universal service fund, not including the fund proposed for schools and libraries, based primarily on interstate costs and roughly calculated to be between eight and ten billion dollars. What has not been addressed in the Recommended Decision are extant implicit subsidies such as those provided through intrastate toll and access charges. If these had been considered, then the fund would be roughly about twenty-one billion dollars.[1]

ALLTEL does not disagree that the universal service funding mechanisms should be explicit. What it does disagree with is that in its quest to achieve explicit funding mechanisms, the Joint Board has largely ignored the ramifications of the Commission's First Report and Order in the Interconnection proceeding and the related impacts on the access charges. As acknowledged by the Commission, this proceeding, the Interconnection one, and the long-awaited access reform proceeding are all interrelated proceedings. They have been referred to as a "three-legged stool". In actual fact, what we are faced with as a result of the Interconnection Order and the Joint Board's Recommended Decision is a "one legged stool" with LECs being saddled with jurisdictional allocations of interstate costs and having to support those costs with intrastate revenues and no specific and defined mechanisms for the recover of these costs.

ALLTEL submits that in order to encourage LECs to continue to provide universal service, there must be a viable means for them to recover their actual costs. These means are not apparent in the Recommended Decision. Rather, there are some glaring omissions which will significantly impact the decision of many LECs to participate in the provision of universal service. In this regard, the size of the high cost fund remains an unknown as does the basis for

[1] Calvin S. Monson and Jeffrey H. Rohlfs, "The $20 Billion Impact of Local Competition in Telecommunications", July 16, 1993; USTA Comments, CC Docket No. 80-286, October 28, 1994; and USTA Ex Parte, CC Docket No. 80-286, February 9, 1995.

contributing to the fund as well as the determination and need for a reliable proxy model. ALLTEL understands that there will be future FCC efforts to address some of these omissions, including the development and validation of a reliable proxy model. ALLTEL intends to participate in this process. However, ALLTEL cannot emphasize enough the importance that actual costs incurred by LECs in the provision of universal service be recognized and recovered if there is to be an incentive for them to continue to provide universal service.

In the following, ALLTEL has focused its comments on three specific areas; namely, the Common Carrier Bureau's request for comments relating to (1) principles, (2) schools and libraries and (3) administration.

I. PRINCIPLES

A. With Certain Caveats, Competitive Neutrality Can be Added as a Universal Service Principle

The Joint Board has recommended that the term "competitive neutrality" be added as a universal service principle. That term appears in several instances in the 96 Telecom Act although it is not specifically defined. In the Recommended Decision, the Joint Board indicated that "competitive neutrality" would be defined in the context of determining that "universal service support mechanisms and rules should be applied in a competitively neutral manner." (Recommended Decision p. 15) This principle would encompass the concept of technological neutrality and be applied to each and every recipient and contributor to the universal service support mechanisms regardless of size, status or geographic location. (Id.)

ALLTEL does not object to the adoption of "competitive neutrality" as an additional principle so long as it can be demonstrated that its application does, in fact, result in the advancement and preservation of universal service. To this end, competitive neutrality within the context of the advancement and preservation of universal service means that entrants are not favored over incumbents and that they qualify for support on the same basis as incumbent LECs. Thus, for example, in areas served by rural LECs, new entrants would be required to serve the same geographic areas as the incumbent LEC and to offer their services on an equivalent stand-alone basis. Moreover, entrants competing with incumbent LECs solely through the resale of the LECs' services would not qualify for support because universal service support is already reflected in the price the reseller pays.

II. SCHOOLS/LIBRARIES

A. The 96 Telecom Acts Limits Special Rate Treatment for Schools and Libraries to Telecommunications Services

The 96 Telecom Act accorded eligible schools and libraries with special rate treatment with respect to their telecommunications service needs. In doing so, the goal of the Congress was to help open new worlds of knowledge and education to all Americans. ALLTEL believes that this is an important goal and one which the Joint Board tried to achieve in its deliberations. However, in formulating the separate fund for schools and libraries, ALLTEL believes that the Joint Board departed from the requirements of the 96 Telecom Act in one significant respect; namely, it ignored the requirement that only telecommunications services are to be supported. ALLTEL does not believe that Congress intended for Internet access or internal connections to qualify for special rate treatment. These are not telecommunications services provided by telecommunications carriers. Thus, neither they nor their providers should be eligible for special rate treatment nor universal service support. To decide otherwise, removes the taxing authority from the legislative branch.

III. ADMINISTRATION

A. Contributions Should be Based on Retail Revenues

One of the six specific universal service principles in Section 254(b) of the 96 Telecom Act is that "all providers of telecommunications services should make an equitable and nondiscriminatory contribution to the preservation and advancement of universal service." To implement this, the Joint Board appears to have endorsed an interstate fund to which all carriers that provide interstate telecommunications services will make contributions based on their gross telecommunications revenues net of payments to other carriers (Recommended Decision p. 405-411).

While ALLTEL agrees that all carriers providing interstate telecommunications services should contribute to an interstate universal service fund, it does not necessarily follow that predicating their contributions on gross telecommunications revenues less payments to other carriers is either equitable or nondiscriminatory. For example, under a gross revenues scheme, incumbent LECs would pay a disproportionate contribution because gross revenues include LEC revenues that are not associated with universal service. To use this as a basis for determining contributions will only perpetuate the implicit subsidies in the current system.

ALLTEL submits that retail revenues represent an equitable basis for assessing contributions for universal service funding. Retail revenues are an accurate reflection of telecommunications revenues relating to universal service. Moreover, the use of retail revenues as a contribution basis is administratively straight-forward and impedes the potential for any telecommunications carrier to lessen its equitable contribution.

B. Contributions Should be Based on Interstate Retail Revenues

The Joint Board recommended that the Commission seek additional input on whether both interstate and intrastate revenues should be the basis for assessing contributions to the universal service fund(s) for high cost and low income assistance. ALLTEL believes that since the Joint Board appears to have only dealt with universal service costs that are interstate in nature, it is only logical and consistent that contributions be based on interstate retail revenues. This results in a match between the universal service fund costs and the corresponding contribution. This approach also addresses the jurisdictional concerns of CMRS carriers in that their contributions would be based on only interstate revenues while any required funding for any state universal service fund would be determined within the parameters established in Section 332(c)(3) of the Communications Act.

The use of interstate retail revenues presents no administrative burden because these revenues are currently reported by telecommunications carriers for purposes of funding the interstate Telecommunications Relay Service ("TRS") Fund. Thus, ALLTEL encourages the Commission to adopt a contribution mechanism based on interstate retail revenues for the smaller interstate-only universal service fund contemplated by the Joint Board.

C. Universal Service Contributions Should be Recovered Through a Surcharge

Contributions to universal service funding are a legitimate cost resulting from an obligation imposed by the 96 Telecom Act. Such costs need to be recovered in order to ensure the preservation and advancement of universal service as contemplated by the 96 Telecom Act. Because that Act requires that implicit funding give way to explicit mechanisms, ALLTEL proposes that each telecommunications service provider should be able to apply an identifiable explicit surcharge to the telecommunications bill of its customers.

A similar surcharge should be used to recover the contributions necessary to fund the provision of universal service to schools and libraries and to rural health care providers. These costs are new costs mandated by Congress and should, as contemplated by the 96 Telecom Act, be recovered in an explicit fashion.

D. Rural Telecommunications Carriers Should not be Required to Prematurely Transition to Proxies

The Joint Board has recommended that any universal service proxy model that is ultimately adopted by the Commission should be reviewed before being used by the rural LECs. ALLTEL believes that a valid proxy model for rural LECs must take into consideration their lack of economies of scale and scope. Rural LECs have cost characteristics that are different from the larger LECs and they also have greater volatility in their customer base. These factors increase their dependence on explicit, predictable and sufficient funding sources.

However, the Commission and Joint Board have not even begun to address the parameters that should be incorporated into a rural universal service proxy model let alone to validate the outputs from such a model. Moreover, there is no evidence that allowing universal service funding for rural carriers to remain on an actual cost basis would have an adverse impact on local competition or universal service. Accordingly, ALLTEL sees no valid reason to rush into a transition mechanism with potentially unknown adverse consequences until such time as a rural universal service proxy model is developed <u>and</u> validated.

E. Proxy Universal Service Mechanisms for Rural LECs Must Incorporate Realistic Benchmarks

The appropriate proxy model for rural LECs must be coupled to a realistic benchmark.

The use of a "revenue per line" construct has a number of flaws. First, it is difficult to match the appropriate revenues to the actual costs of providing universal service. Second, fund size can be manipulated by creating an artificially high revenue per line thereby precluding eligible telecommunications carriers with legitimate universal service requirements from receiving funding. ALLTEL believes that an equitable approach should be based on the average cost of universal service as determined by the properly derived models. Eligible telecommunications carriers in proxy areas (CBGs, grids, cells, etc.) with costs greater than the nationwide universal service cost benchmark should be eligible to receive funding. This approach would align the eligibility for funding with the cost of providing universal service.

In the event that a "revenue per line" approach is nonetheless adopted as the benchmark for qualifying for universal service, there must be a careful matching of costs and revenues in order for eligible telecommunications carriers to receive sufficient support. The nationwide average revenue per line should not include revenues from access and discretionary services because these services are not included in universal service costs. To include these revenues would serve only to artificially deflate the size of the universal service fund. Decreasing the fund size below the "sufficient" level will simply perpetuate the current system of implicit support.

Furthermore, even eliminating the revenues from access and discretionary services from the benchmark calculation, still does not result in the appropriate revenue per line benchmark for rural LECs. This is because rural LECs generally have more limited calling scopes, lower local rates, and a lower business-to-residential line mix than non-rural LECs. This impacts their ability to qualify for universal service funding even using even a properly constructed proxy model. The solution is to allow rural LECs electing proxies to close to their actual costs. This would allow them to disaggregate universal service funding in a competitively neutral and portable fashion consistent with a proxy methodology and without imposing an inappropriately high revenue per line benchmark.

F. The Joint Board's Recommended "Freeze" Should Not be Adopted

ALLTEL recommends that all rural LECs continue to receive high cost support using their current embedded costs until a valid proxy model is adopted.

The Joint Board recommended that beginning in 1998, rural LECs should use 1995 costs to determine their high cost support and their 1996 costs to determine the long term and DEM weighting support. ALLTEL disagrees. The starting point for all support to rural LECs should be based on their 1996 embedded costs. Thus, the rural LECs' high cost support for 1998 should be based on their 1997 annual USF data submission. The rural LECs' study area specific support would then be divided by the supportable lines to determine the support per line. Because under the Joint Board's proposal, non-rural LECs would no longer receive high cost support based on embedded costs, ALLTEL believes that the nationwide average cost per loop should be frozen based on the 1996 level.

The DEM weighting support for 1998 should be determined using 1996 costs developed at the authorized rate of return. The DEM weighting support would be divided by the supportable lines to determine the support per line. Rural LECs would then annually update their costs for determining DEM support.

ALLTEL agrees with the Joint Board's recommendation that long term support ("LTS") should be frozen at the 1996 level since depooled LECs will no longer be required to fund this support. ALLTEL, however, does not concur with the Joint Board's recommendation for calculating LTS. The Joint Board's recommendation would give LTS to companies based on a ratio of study area revenue requirements to the total NECA common line pool revenue requirement. This would produce inequitable and insufficient support for the highest cost study areas. To address this, ALLTEL recommends that high cost support be determined by calculating each study area's 1996 interstate common line revenue requirement at the authorized rate of return. Each study area's 1996 EUCL revenues and CCL revenues would then be subtracted from that study area's revenue requirement and divided by the study area's supportable lines. This results in a study area specific LTS per line and comports with the 96 Telecom Act.

Conclusion

There are some fundamental omissions and unwarranted recommendations in the Joint Board's decision which must be addressed and properly resolved, as set forth herein, if universal service is to be preserved and advanced.

Respectfully submitted,
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CERTIFICATE OF SERVICE

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